JSC “IDGC of Centre”

Consolidated Financial Statements
for the year ended 31 December 2013

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors

JSC Interregional Distribution Grid Company of Centre

We have audited the accompanying consolidated financial statements of JSC Interregional Distribution Grid Company of Centre (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: JSC Interregional Distribution Grid Company of Centre

Registered in the Unified State Register of Legal Entities on 17 December 2014 by the Inter-district inspectorate of Russian Federation Ministry of Taxation No.1 of Tver Region, Registration No. 1046900099498. Certificate series 69 No. 000939402.

Amendments due to renaming registered in the Unified State Register of Legal Entities on 6 August 2007 by Inter-district inspectorate of Federal Tax Service No.46 of Moscow, Registration No. 2077758742433. Certificate series 77 No. 008165394.

4, 2nd Yamskaya street, Moscow, Russia, 127018

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Titova T.E.,

Deputy Director, (power of attorney dated 28 October 2011 No. 50/11)

ZAO KPMG

1 April 2014

Moscow, Russian Federation

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2013	Year ended 31 December 2012 Restated
Revenue	7	93,296,538	69,984,035
Operating expenses	8	(91,228,145)	(63,073,034)
Other income		1,327,017	869,396
Results from operating activities		**3,395,410**	**7,780,397**
Finance income	10	89,181	139,149
Finance costs	10	(2,436,008)	(1,992,578)
Net finance costs		**(2,346,827)**	**(1,853,429)**
Profit before income tax		**1,048,583**	**5,926,968**
Income tax expense	11	(782,336)	(1,341,748)
Profit for the year		**266,247**	**4,585,220**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(22,657)	33,969
Income tax on other comprehensive income		4,531	(6,794)
Total items that are or may be reclassified to profit or loss		**(18,126)**	**27,175**
Remeasurements of the net defined benefit liability		(323,623)	(187,567)
Income tax on other comprehensive income		50,878	25,480
Total items that will never be reclassified to profit or loss		**(272,745)**	**(162,087)**
Other comprehensive income for the year, net of income tax		**(290,871)**	**(134,912)**
Total comprehensive income for the year		**(24,624)**	**4,450,308**
Profit for the year attributable to:			
Owners of the Company		233,680	4,561,765
Non-controlling interests		32,567	23,455
		266,247	**4,585,220**
Total comprehensive income attributable to:			
Owners of the Company		(57,191)	4,426,853
Non-controlling interests		32,567	23,455
		(24,624)	**4,450,308**
Earnings per share – basic and diluted (in Russian Roubles)	21	0.006	0.108

These consolidated financial statements were approved on 1 April 2014:

General Director

O.Y. Isaev

Chief Accountant

L.A. Sklyarova

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 47.

Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2013	31 December 2012 Restated	1 January 2012 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	12	78,073,742	71,465,522	62,295,233
Intangible assets	13	615,921	696,842	945,109
Investments and financial assets	15	530,888	543,015	533,976
Other non-current assets	16	118,023	161,954	173,789
Total non-current assets		**79,338,574**	**72,867,333**	**63,948,107**
Current assets				
Cash and cash equivalents	17	1,114,942	971,592	2,646,152
Trade and other receivables	18	12,630,352	13,472,357	8,409,867
Income tax receivable		908,125	841,517	456,905
Inventories	19	2,050,637	1,415,449	1,346,478
Other current assets		3,994	2,810	9,286
Total current assets		**16,708,050**	**16,703,725**	**12,868,688**
Total assets		**96,046,624**	**89,571,058**	**76,816,795**
EQUITY AND LIABILITIES				
Equity	20			
Share capital		4,221,794	4,221,794	4,221,794
Reserves		(569,908)	(279,037)	(144,125)
Retained earnings		38,035,501	38,664,756	34,525,170
Total equity attributable to equity holders of the Company		**41,687,387**	**42,607,513**	**38,602,839**
Non-controlling interests		66,592	34,025	10,570
Total equity		**41,753,979**	**42,641,538**	**38,613,409**
Non-current liabilities				
Loans and borrowings	22	31,207,688	26,295,744	20,070,000
Finance lease liability	23	83,989	141,392	400,360
Employee benefits	24	2,527,351	2,148,822	2,012,635
Deferred tax liabilities	14	5,032,746	4,342,821	4,041,557
Other non-current liabilities		577,730	441,277	353,592
Total non-current liabilities		**39,429,504**	**33,370,056**	**26,878,144**
Current liabilities				
Loans and borrowings	22	1,911,919	207,002	1,167,320
Finance lease liability	23	493,368	400,243	466,376
Trade and other payables	26	10,538,522	11,144,889	8,484,681
Employee payables	25	779,118	1,054,997	946,413
Income tax payable		9,193	-	542
Other taxes and contributions payable	27	1,131,021	752,333	259,910
Total current liabilities		**14,863,141**	**13,559,464**	**11,325,242**
Total liabilities		**54,292,645**	**46,929,520**	**38,203,386**
Total equity and liabilities		**96,046,624**	**89,571,058**	**76,816,795**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 47.

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company						
	Share capital	**Fair value reserve for available-for-sale financial assets**	**Reserve for remeasurements of defined benefit plans**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2012, as previously reported	4,221,794	-	-	34,345,364	**38,567,158**	10,570	**38,577,728**
Impact of change in accounting policy	-	50,162	(194,287)	179,806	**35,681**	-	**35,681**
Balance at 1 January 2012 (restated)	**4,221,794**	**50,162**	**(194,287)**	**34,525,170**	**38,602,839**	**10,570**	**38,613,409**
Profit for the year	-	-	-	4,561,765	**4,561,765**	23,455	**4,585,220**
Net change in fair value of available-for-sale financial assets	-	33,969	-	-	**33,969**	-	**33,969**
Remeasurements of the net defined benefit liability	-	-	(187,567)	-	**(187,567)**	-	**(187,567)**
Income tax on other comprehensive income	-	(6,794)	25,480	-	**18,686**	-	**18,686**
Total comprehensive income for the year	**-**	**27,175**	**(162,087)**	**4,561,765**	**4,426,853**	**23,455**	**4,450,308**
Transactions with owners, recorded directly in equity							
Dividends	-	-	-	(422,179)	**(422,179)**	-	**(422,179)**
Total transactions with owners, recorded directly in equity	**-**	**-**	**-**	**(422,179)**	**(422,179)**	**-**	**(422,179)**
At 31 December 2012 (restated)	**4,221,794**	**77,337**	**(356,374)**	**38,664,756**	**42,607,513**	**34,025**	**42,641,538**
Balance at 1 January 2013	**4,221,794**	**77,337**	**(356,374)**	**38,664,756**	**42,607,513**	**34,025**	**42,641,538**
Profit for the year	-	-	-	233,680	**233,680**	32,567	**266,247**
Net change in fair value of available-for-sale financial assets	-	(22,657)	-	-	**(22,657)**	-	**(22,657)**
Remeasurements of the net defined benefit liability	-	-	(323,623)	-	**(323,623)**	-	**(323,623)**
Income tax on other comprehensive income	-	4,531	50,878	-	**55,409**	-	**55,409**
Total comprehensive income for the year	**-**	**(18,126)**	**(272,745)**	**233,680**	**(57,191)**	**32,567**	**(24,624)**
Transactions with owners, recorded directly in equity							
Dividends	-	-	-	(862,935)	**(862,935)**	-	**(862,935)**
Total transactions with owners, recorded directly in equity	**-**	**-**	**-**	**(862,935)**	**(862,935)**	**-**	**(862,935)**
Balance at 31 December 2013	**4,221,794**	**59,211**	**(629,119)**	**38,035,501**	**41,687,387**	**66,592**	**41,753,979**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 47.

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Year ended 31 December 2013	Year ended 31 December 2012 Restated
Profit for the year		266,247	4,585,220
Adjustments for:			
Depreciation and amortisation	8	7,929,579	7,448,369
Allowance for impairment of accounts receivable	8	8,580,958	561,228
Net finance costs	10	2,346,827	1,853,429
Provision for inventory obsolescence		(70,845)	(91,822)
Loss on disposal of property, plant and equipment and intangible assets		209,603	157,781
Bad debts written-off	8	3,759	15,749
Income tax expense		782,336	1,341,748
Adjustment for other non-cash transactions		(201,576)	(30,631)
Cash flows from operating activities before changes in working capital		**19,846,888**	**15,841,071**
Change in trade and other receivables		(7,743,324)	(5,639,518)
Change in inventories		13,866	22,851
Change in other assets		31,580	44,013
Change in trade and other payables		648,387	3,278,523
Change in employee payables		(275,879)	108,584
Change in employee benefits		(103,956)	(204,993)
Change in other liabilities		144,059	80,243
Change in other taxes payable		378,688	492,423
Cash flows from operations before income taxes and interest paid		**12,940,309**	**14,023,197**
Interest paid		(2,564,345)	(1,997,026)
Income tax paid		(110,348)	(1,476,080)
Cash flows from operating activities		**10,265,616**	**10,550,091**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(15,547,371)	(16,691,395)
Proceeds from disposal of property, plant and equipment and intangible assets		25,373	57,573
Interest received	10	89,181	139,149
Cash flows used in investing activities		**(15,432,817)**	**(16,494,673)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		21,972,826	6,333,063
Repayment of loans and borrowings		(15,325,517)	(1,188,014)
Dividends paid		(823,067)	(400,837)
Repayment of finance lease liabilities		(513,691)	(474,190)
Cash flows from financing activities		**5,310,551**	**4,270,022**
Net/increase (decrease)in cash and cash equivalents		143,350	(1,674,560)
Cash and cash equivalents at beginning of the year		971,592	2,646,152
Cash and cash equivalents at end of the year	17	**1,114,942**	**971,592**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 47.

1 BACKGROUND

(a) The Group and its operations

Joint-Stock Company “IDGC of Centre” (hereafter, the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors’ decision (board of directors’ meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO “United Energy Systems of Russia” (hereafter, “RAO UES”).

The Company’s registered office is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Company’s de facto address is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Group’s principal activity is the transmission of electricity and the connection of customers to the electricity grid. In 2013 the Group started to purchase and sell electricity in several regions it operates (Note 7).

The Group consists of JSC “IDGC of Centre” and its subsidiaries, presented in Note 5.

As at 31 December 2013, the Government of the Russian Federation owned 85.31% shares of JSC Russian Grids (formerly JSC “IDGC Holding”) (at 31 December 2012 – 54.52%), which in turn owned 50.23% of the Company. JSC “IDGC Holding” was renamed JSC “Russian Grids” following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding.

The Government of the Russian Federation influences the Group’s activities through setting transmission tariffs.

(b) Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements (hereinafter “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for available-for-sale financial assets measured at fair value; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these Financial Statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 28 – allowances for impairment of trade and other receivables;
- Note 29 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following note:

- Note 31 – contingencies.

(e) Changes in accounting policies and data presentation

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7);

(ii) IFRS 13 Fair Value Measurement;

(iii) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1);

(iv) IAS 19 Employee Benefits (2011).

The nature and effects of the changes are explained below.

(i) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see Note 28 (b) (iii)).

(ii) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. For disclosure see Note 28 (e).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iii) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(iv) Post-employment defined benefit plans

The Group applied IAS 19 (2011) to its pension plan which is a defined benefit plan retrospectively beginning from 1 January 2012. As a result, past service costs are recognised in full amount as expense as at the earlier of the following dates: (a) the date of plan amendment or plan curtailment, and (b) the date when the related restructuring costs or termination benefits are recognised. Previously the entity recognised past service costs as an expense on the straight-line basis over the average period until the benefits become vested.

Thousands of Russian Roubles, unless otherwise stated

According to IAS 19 (2011) remeasurements of the net defined benefit obligation (asset) in respect of post-employment benefits are recognised in other comprehensive income. Remeasurements in respect of other long-term benefits are recognized in profit or loss. Previously the Group recognized all remeasurements in profit or loss.

Besides, new disclosures, such as quantitative sensitivity analysis, are now required.

The quantitative impact of changes resulted from amended IAS 19 is set out below.

Consolidated Statement of Financial Position:

1 January 2012	*As previously reported*	*Effect of revised IAS 19*	*As restated*
Reserve for remeasurements of defined benefit plans	-	(194,287)	(194,287)
Retained earnings	34,256,704	229,968	34,486,672
Total equity:	**38,577,728**	**35,681**	**38,613,409**
Employee benefits	2,083,121	(70,486)	2,012,635
Deferred tax liabilities	4,006,752	34,805	4,041,557
Total liabilities:	**38,239,067**	**(35,681)**	**38,203,386**

31 December 2012	*As previously reported*	*Effect of revised IAS 19*	*As restated*
Reserve for remeasurements of defined benefit plans	-	(356,374)	(356,374)
Retained earnings	38,239,326	414,107	38,653,433
Total equity:	**42,583,805**	**57,733**	**42,641,538**
Employee benefits	2,248,559	(99,737)	2,148,822
Deferred tax liabilities	4,300,817	42,004	4,342,821
Total liabilities:	**46,987,253**	**(57,733)**	**46,929,520**

Consolidated Statement of Profit or loss and Other Comprehensive Income:

For the year of 2012	*As previously reported*	*Effect of revised IAS 19*	*As restated*
Operating expenses	(63,297,658)	224,848	(63,072,810)
Finance costs	(1,984,548)	(8,030)	(1,992,578)
Income tax expense	(1,315,863)	(32,679)	(1,348,542)
Profit for the year	**4,428,256**	**184,139**	**4,612,395**
Remeasurements of the net defined benefit liability	-	(187,567)	(187,567)
Income tax on other comprehensive income	-	25,480	25,480
Other comprehensive income for the year, net of income tax	**-**	**(162,087)**	**(162,087)**
Total comprehensive income for the year	**4,428,256**	**22,052**	**4,450,308**

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by Group entities , except as explained in Note 2 (e), which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus,
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(iv) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(v) Business combinations involving entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the acquired entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity, trade and other receivables, cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 16 and Note 18, and cash and cash equivalents as presented in Note 17.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liability category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment by type of facility are as follows:

- Buildings 15 – 50 years;
- Transmission networks 5 – 20 years;
- Equipment for electricity transformation 5 – 20 years;
- Other 1 – 30 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(iv) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(d) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see 3 (a) (iii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Patents and licenses 1 – 12 years;
- Computer software 1 – 10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is determined using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale equity securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(h) Revenue

Revenue from electricity transmission is recognised based on acts of services rendered. The act is prepared in respect of each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the "boiler" tariffs approved by the Regional Energy Commission of each region of the Group's operations.

Revenue from the sale of electricity is recognized based on:

- monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the Regional Energy Commission.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognised when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognised in proportion to the stage of completion when an act of acceptance is signed by the customer.

Revenue from installation, repair and maintenance services and other sales is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(i) Finance income and costs

Finance income comprises interest income on cash balances and bank deposits and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognised in profit or loss using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and if the obligation can be estimated reliably.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(m) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board, the Group's operating decision making body, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board, the Group's operating decision making body, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(o) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 July 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 MEASUREMENT OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Thousands of Russian Roubles, unless otherwise stated

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the Note 28.

5 SUBSIDIARIES

(a) List of subsidiaries

	Country of incorporation	31 December 2013 Ownership/voting, %	31 December 2012 Ownership/voting, %
OJSC "Energetic"	Russian Federation	100	100
OJCS "Yaroslavskaya Setevaya Company"	Russian Federation	51	51
OJSC "Yargorelectroset"	Russian Federation	100	100
OJSC "Energy Service Company"	Russian Federation	100	100
CJSC "Innovation and energy efficiency center"	Russian Federation	51	51

6 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group's strategic business units and are the Company's branches. The strategic business units offer similar services representing transmission of electric power and connection services and are managed separately. In addition in 2013 five divisions (Bryanskenergo, Kurskenergo, Oryolenergo, Tverenergo and Smolenskenergo) started to perform electricity supplier functions (see Note 7). For each of the strategic business units, the Management Board, the Group's operating decision making body, reviews internal management reports on at least a quarterly basis.

"Others" include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in 2013 or 2012.

Information regarding the results of each reportable segment is included below. Since 2013 performance is measured based on segment earnings before interest income/expense, income tax and depreciation and amortisation – EBITDA (previously – profit before income tax), as included in the internal management reports that are reviewed by the Management Board.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. The reconciliation of items measured as reported to the Management Board with similar items in these Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

As at and for the year ended 31 December 2013:

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	13,389,360	5,829,272	9,329,839	3,716,841	6,288,623	8,379,661	3,510,367	5,247,509	3,925,373	8,128,121	7,436,545	-	**75,181,511**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	882,316	**882,316**
Revenue from connection services	102,344	83,233	121,357	42,050	60,403	73,616	24,478	145,053	28,397	61,660	170,188	150,381	**1,063,160**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	10,411	-	**10,411**
Revenue from the resale of electricity and capacity	-	4,533,096	-	-	3,675,634	-	1,892,605	1,481,542	-	4,401,810	-	-	**15,984,687**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	225,737	39,334	85,131	29,473	32,956	42,376	20,501	294,699	24,787	25,228	37,819	105,978	**964,019**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	69	254,077	**254,146**
Total revenues	**13,717,441**	**10,484,935**	**9,536,327**	**3,788,364**	**10,057,616**	**8,495,653**	**5,447,951**	**7,168,803**	**3,978,557**	**12,616,819**	**7,655,032**	**1,392,752**	**94,340,250**
Results from operating activities *	**3,009,204**	**61,387**	**(32,515)**	**525,502**	**672,968**	**2,771,032**	**543,952**	**(645,894)**	**(69,757)**	**(2,977,505)**	**74,458**	**(84,122)**	**3,848,710**
Finance income	20,985	14,147	15,983	7,638	313	17,254	1,019	6,232	5,030	4,121	15,447	1,932	**110,101**
Finance costs	(478,777)	(69,758)	(53,395)	(104,751)	(134,533)	(185,788)	(129,798)	(208,134)	(222,883)	(281,462)	(242,299)	(39,670)	**(2,151,248)**
Reportable segment profit/(loss) before income tax	**2,551,412**	**5,776**	**(69,927)**	**428,389**	**538,748**	**2,602,498**	**415,173**	**(847,796)**	**(287,610)**	**(3,254,846)**	**(152,394)**	**(121,860)**	**1,807,563**
Depreciation and amortisation	2,242,916	359,136	696,078	428,007	640,577	858,956	279,515	644,164	314,760	498,124	596,205	138,170	**7,696,608**
EBITDA	5,252,120	420,523	663,563	953,509	1,313,545	3,629,988	823,467	(1,730)	245,003	(2,479,381)	670,663	54,048	**11,545,318**
Reportable segment assets	**23,490,650**	**6,235,170**	**10,166,994**	**5,340,945**	**8,075,676**	**14,363,746**	**3,626,848**	**6,769,693**	**4,467,368**	**10,187,361**	**8,618,981**	**6,004,550**	**107,347,982**
Property, plant and equipment	21,553,163	4,325,643	9,534,278	4,750,248	6,560,293	12,585,415	2,981,048	5,645,603	3,764,463	6,571,882	6,961,355	1,915,810	**87,149,201**
Reportable segment liabilities	**2,747,322**	**842,349**	**1,716,731**	**795,769**	**1,174,199**	**1,264,617**	**543,841**	**1,049,910**	**540,450**	**3,011,582**	**1,279,640**	**38,100,227**	**53,066,637**
Capital expenditure	4,175,605	464,412	1,399,863	895,378	948,858	1,767,944	572,169	1,141,034	497,907	1,355,717	1,206,197	247,374	**14,672,458**

* Results from operating activities include other income and expense of reportable segment

Thousands of Russian Roubles, unless otherwise stated

As at and for the year ended 31 December 2012:

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	11,684,302	5,347,847	7,330,108	3,603,216	5,740,527	8,136,794	3,242,440	4,833,209	3,551,958	7,442,193	6,574,232	-	**67,486,826**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	922,364	**922,364**
Revenue from connection services	77,553	78,113	90,275	40,636	104,320	70,310	76,820	44,384	9,890	393,289	171,053	208,325	**1,364,968**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	21,758	-	**21,758**
Other revenue	202,344	27,960	86,498	32,777	18,386	26,106	12,047	239,598	21,768	32,331	31,092	291,188	**1,022,095**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	1,169	480,262	**481,431**
Total revenues	**11,964,199**	**5,453,920**	**7,506, 881**	**3,676,629**	**5,863,233**	**8,233,210**	**3,331,307**	**5,117,191**	**3,583,616**	**7,867,813**	**6,799,304**	**1,902,139**	71,299,442
Results from operating activities *	**2,338,090**	**623,278**	**(218,537)**	**568,382**	**619,286**	**(1,006,962)**	**417,464**	**384,485**	**(116,156)**	**1,492,328**	**866,336**	**248,982**	**6,216,976**
Finance income	29,843	9,978	20,362	7,214	14,069	21,123	5,941	10,527	7,591	12,267	17,947	3,205	**160,067**
Finance costs	(385,933)	(21,481)	(39,171)	(80,960)	(95,237)	(110,230)	(122,055)	(142,561)	(182,108)	(263,964)	(193,108)	(39,948)	**(1,676,756)**
Reportable segment profit/(loss) before income tax	**1,982,000**	**611,775**	**(237,346)**	**494,636**	**538,118**	**(1,096,069)**	**301,350**	**252,451**	**(290,673)**	**1,240,631**	**691,175**	**212,239**	**4,700,287**
Depreciation and amortisation	1,975,793	287,971	535,326	358,978	558,487	698,354	241,876	451,729	261,220	435,823	493,572	119,045	**6,418,174**
EBITDA	4,313,883	911,249	316,789	927,360	1,177,773	(308,608)	659,340	836,214	145,064	1,928,151	1,359,908	368,027	**12,635,150**
Reportable segment assets	**21,121,302**	**5,592,674**	**10,304,055**	**4,882,903**	**7,190,206**	**13,433,257**	**3,274,558**	**6,160,369**	**4,171,255**	**10,438,052**	**9,042,483**	**5,996,357**	**101,607,471**
Property, plant and equipment	19,653,273	4,263,208	8,887,451	4,309,573	6,269,496	11,903,659	2,756,068	5,207,582	3,648,411	5,845,746	6,456,373	1,807,720	**81,008,560**
Reportable segment liabilities	**2,566,861**	**1,200,210**	**2,960,234**	**884,313**	**1,179,449**	**2,620,491**	**572,841**	**803,580**	**529,762**	**2,095,742**	**2,127,387**	**29,054,531**	**46,595,401**
Capital expenditure	4,715,566	537,152	2,072,014	1,030,576	1,041,826	2,053,897	520,849	1,196,395	398,856	733,013	1,509,369	301,271	**16,110,784**

* Results from operating activities include other income and expense of reportable segment

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

In 2013 revenue from one customer of the Group’s segment (Belgorodenergo) represented approximately 11% (RUB 10,687,362 thousand) of the Group’s total revenue (in 2012 - RUB 9,201,133 thousand or 13% of the Group’s total revenue).

(iii) Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements is presented in the tables below.

Revenues	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Total revenue for reportable segments	94,340,250	71,299,442
Elimination of inter-segment revenue	(1,146,873)	(1,425,553)
Reclassification	103,161	110,146
Consolidated revenue	**93,296,538**	**69,984,035**

	Year ended 31 December 2013	**Year ended 31 December 2012**
EBITDA for the reportable segments	11,545,318	12,635,150
Adjustments for of property, plant and equipment	(47,547)	(1,494)
Recognition of financial assets related to employee benefit fund	11,654	(24,705)
Unused vacation and annual bonus provision	-	2,085
Recognition of employee benefit obligations	103,956	204,993
Adjustment for finance lease	732,535	644,514
Adjustment for allowance for impairment of account receivables	(3,495)	5,215
Provision for inventory obsolescence	(2,251)	167,558
Amortisation of intangible assets	290,500	348,260
Adjustment for litigation provision	(1,357,262)	1,357,262
Other adjustments	51,581	(110,072)
Consolidated earnings before interest, tax and depreciation and amortisation (EBITDA)	**11,324,989**	**15,228,766**
Depreciation and amortization	(7,929,579)	(7,448,369)
Interest expenses	(2,127,977)	(1,653,001)
Interest on finance lease liabilities	(149,170)	(185,964)
Interest expense on employee benefit obligations	(158,861)	(153,613)
Interest income	89,181	139,149
Income tax expense	(782,336)	(1,341,748)
Profit for the year per Consolidated Statement of Profit or Loss and Other Comprehensive Income	**266,247**	**4,585,220**

Thousands of Russian Roubles, unless otherwise stated

Assets	**31 December 2013**	**31 December 2012**
Total assets for reportable segments	107,347,982	101,607,471
Elimination of cost of investments in subsidiaries	(1,117,395)	(1,117,395)
Elimination of other inter-segment assets	(504,930)	(554,165)
Adjustments for net book value of property, plant and equipment	(8,999,124)	(9,633,559)
Recognition of financial assets related to employee benefit fund	355,003	343,349
Adjustment for allowance for impairment of account receivables	9,316	12,811
Provision for inventory obsolescence	(2,251)	-
Adjustment for deferred tax	(1,020,469)	(1,058,877)
Other adjustments	(21,508)	(28,577)
Consolidated total assets	**96,046,624**	**89,571,058**

Liabilities	**31 December 2013**	**31 December 2012**
Total liabilities for reportable segments	53,066,637	46,595,401
Elimination of inter-segment liabilities	(503,111)	(552,088)
Adjustment for finance lease	577,357	529,872
Recognition of employee benefit obligations	2,527,351	2,148,822
Adjustment for deferred tax	(1,348,340)	(443,711)
Adjustment for litigation provision	-	(1,357,262)
Other adjustments	(27,249)	8,486
Consolidated total liabilities	**54,292,645**	**46,929,520**

7 REVENUE

	Year ended 31 December 2013	**Year ended 31 December 2012**
Electricity transmission	61,396,222	67,486,826
Revenue from the resale of electricity and capacity	29,769,976	-
Connection services	1,063,160	1,364,968
Repairs and maintenance	469,810	127,552
Rent	55,110	61,446
Other	542,260	943,243
	93,296,538	**69,984,035**

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

In 2013 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Company started to perform the functions of electricity supplier in Bryansk, Oryol, Kursk,Tver and Smolensk regions. Hence, in addition to performing power transmission services, some divisions of the Company commenced performing power distribution services, including purchasing electricity on the wholesale market and selling it on the retail market, and entering into power purchase agreements with all customers, including householders. The period within which the functions of electricity supplier are to be performed was established prior to the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but not more than 12 months. In February 2014 following the decision of the Russian Ministry of Energy function of electricity supplier in Orel region was transferred from the Company to the subsidiary of OJSC “Inter RAO UES”. In April 2014 also in accordance with the decision of the Russian Ministry of Energy function of electricity supplier in Kursk and Tver regions will be transferred from the Company to OJSC “AtomEnergoSbyt”.

Thousands of Russian Roubles, unless otherwise stated

Revenue from the resale of electricity and capacity includes the part of revenue of RUB 13,785,289 thousand related to transmission of electricity which is sold under power supply contracts. Tariff for sale of electricity under power supply contracts is calculated taking into account transmission fee.

8 OPERATING EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Electricity transmission	27,179,907	24,132,056
Personnel costs (Note 9)	15,364,896	13,990,348
Electricity for resale	14,479,850	-
Purchased electricity	9,073,804	8,684,119
Allowance for impairment of accounts receivable	8,580,958	561,228
Depreciation and amortisation	7,929,579	7,448,369
Raw materials and supplies	2,482,179	2,376,595
Rent	689,775	582,143
Taxes other than income tax	667,237	377,445
Repairs, maintenance and installation services	580,390	534,659
Electricity for own needs	358,207	399,343
Security	305,418	278,160
Information services	261,664	261,901
Insurance	131,508	126,031
Consulting, legal and audit services	129,635	90,520
Telecommunication services	52,182	50,175
Provisions	26,693	467,789
Transportation costs	14,807	67,020
Membership fee	6,060	1,462
Bad debt written-off	3,759	15,749
Other	2,909,637	2,627,922
	91,228,145	**63,073,034**

Out of total amount of allowance for impairment of accounts receivable recognized in the reporting period RUB 6,197,787 thousand relate to impairment of trade receivables from regional distribution entities which lost status of electricity supplier resulted in cease of their operating activity and insolvency. The remainder of the impairment loss mainly relates to disagreements with other regional distribution entities.

9 PERSONNEL COSTS

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and wages	10,301,001	9,589,684
Contribution to the state pension fund	2,298,473	2,191,246
Remeasurements of other long term benefits	237	372
Compulsory social security contributions	685,660	607,774
Finance aid to employees and pensioners	144,997	487,291
Current service cost	88,716	79,605
Unused vacation provision	1,164,790	365,321
Annual bonus provision	178,655	286,385
Past service cost	(59)	(65,884)
Other personnel costs	502,426	448,554
	15,364,896	**13,990,348**

Thousands of Russian Roubles, unless otherwise stated

The average number of employees (including production and non production staff) was 31,963 for the year ended 31 December 2013 (for the year ended 31 December 2012: 31,177 employees).

10 FINANCE INCOME AND COSTS

Finance income	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	89,181	139,149
	89,181	**139,149**
Finance costs		
Interest expense	2,127,977	1,653,001
Interest on finance lease liabilities	149,170	185,964
Interest expense on employee benefits obligation	158,861	153,613
	2,436,008	**1,992,578**

11 INCOME TAX EXPENSE

The Group's applicable tax rate is the income tax rate of 20%.

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax expense		
Current year	(729,755)	(1,138,286)
Adjustment for prior years	692,753	116, 488
	(37,002)	**(1,021,798)**
Deferred tax expense		
Origination and reversal of temporary differences	(745,334)	(319,950)
	(745,334)	**(319,950)**
	(782,336)	**(1,341,748)**

In 2013 the Group recalculated income tax for prior periods (2011-2012) related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 692,753 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RUB 790,079 thousand.

Income tax recognised in other comprehensive income

	Year ended 31 December 2013			Year ended 31 December 2012		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Remeasurements of investments	(22,657)	4,531	(18,126)	33,969	(6,794)	27,175
Reserve for remeasurements of defined benefit plans	(323,623)	50,878	(272,745)	(187,567)	25,480	(162,087)
	(346, 280)	**55,409**	**(290,871)**	**(153,598)**	**18,686**	**(134,912)**

Thousands of Russian Roubles, unless otherwise stated

Reconciliation of effective tax rate:

	Year ended 31 December 2013	**%**	**Year ended 31 December 2012**	**%**
Profit before income tax	**1,048,583**	**100**	**5,926,968**	**100**
Income tax expense at applicable tax rate	(209,717)	(20)	(1,185,394)	(20)
Adjustment for prior periods	692,753	66	116,488	2
Change in the tax base of property, plant and equipment	(790,079)	(75)	-	-
Net effect of other items which are not deductible/not taxable for taxation purposes	(475,293)	(45)	(272,842)	(5)
	(782,336)	**(74)**	**(1,341,748)**	**(23)**

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Transmission networks**	**Equipment for electricity transformation**	**Other**	**Construction in progress**	**Total**
Deemed cost						
Balance at 1 January 2012	16,829,947	31,637,035	18,174,897	9,048,838	7,437,582	83,128,299
Additions	41,149	53,061	26,791	149,726	16,202,164	16,472,891
Transfers	3,086,439	6,803,814	3,747,530	3,363,658	(17,001,441)	-
Disposals	(43,875)	(88,213)	(47,111)	(64,538)	(109,076)	(352,813)
Balance at 31 December 2012	**19,913,660**	**38,405,697**	**21,902,107**	**12,497,684**	**6,529,229**	**99,248,377**
Balance at 1 January 2013	19,913,660	38,405,697	21,902,107	12,497,684	6,529,229	99,248,377
Additions	135,476	149,698	71,659	545,107	14,271,983	15,173,923
Transfers	4,466,537	5,990,143	3,376,197	1,782,145	(15,615,022)	-
Disposals	(6,389)	(37,569)	(96,825)	(126,141)	(828,184)	(1,095,108)
Balance as at 31 December 2013	**24,509,284**	**44,507,969**	**25,253,138**	**14,698,795**	**4,358,006**	**113,327,192**
Accumulated depreciation						
Balance at 1 January 2012	(2,879,469)	(10,562,296)	(4,100,558)	(3,290,743)	-	(20,833,066)
Depreciation for the period	(1,024,883)	(3,199,966)	(1,300,902)	(1,568,581)	-	(7,094,332)
Disposals	14,604	52,989	25,412	51,538	-	144,543
Balance at 31 December 2012	**(3,889,748)**	**(13,709,273)**	**(5,376,048)**	**(4,807,786)**	**-**	**(27,782,855)**
Balance at 1 January 2013	(3,889,748)	(13,709,273)	(5,376,048)	(4,807,786)	-	(27,782,855)
Depreciation for the period	(1,395,085)	(2,761,084)	(1,502,269)	(1,974,851)	-	(7,633,289)
Disposals	4,381	27,079	34,748	96,486	-	162,694
Balance at 31 December 2013	**(5,280,452)**	**(16,443,278)**	**(6,843,569)**	**(6,686,151)**	**-**	**(35,253,450)**
Net book value						
At 1 January 2012	**13,950,478**	**21,074,739**	**14,074,339**	**5,758,095**	**7,437,582**	**62,295,233**
At 31 December 2012	**16,023,912**	**24,696,424**	**16,526,059**	**7,689,898**	**6,529,229**	**71,465,522**
At 31 December 2013	**19,228,832**	**28,064,691**	**18,409,569**	**8,012,644**	**4,358,006**	**78,073,742**

Thousands of Russian Roubles, unless otherwise stated

As at 31 December 2013 construction in progress includes prepayments for property, plant and equipment of RUB 16,075 thousand (as at 31 December 2012: RUB 12,755 thousand) and inventories for the construction of property, plant and equipment of RUB 88,233 thousand (as at 31 December 2012: RUB 105,198 thousand).

Borrowing costs totalling RUB 256,750 thousand with a capitalisation rate of 7.25-13.5% during 2013 (2012: RUB 278,438 thousand with a capitalization rate of 7.524-10.44%) were included in the cost of property, plant and equipment and represent interest on loans.

Leased property, plant and equipment

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Title to the leased assets transfers to the Group at the end of each lease.

As at 31 December 2013 and 31 December 2012 the net book value of leased property, plant and equipment, accounted for as part of the Group’s property, plant and equipment, was as follows:

	Buildings	Transmission networks	Equipment for electricity transformation	Other	Total
Cost	67	66,905	1,835,996	383,361	2,286,329
Accumulated depreciation	(14)	(20,635)	(466,949)	(107,376)	(594,974)
Net book value at 31 December 2012	**53**	**46,270**	**1,369,047**	**275,985**	**1,691,355**
Cost	-	-	1,263,960	855,317	2,119,277
Accumulated depreciation	-	-	(349,387)	(142,259)	(491,646)
Net book value at 31 December 2013	**-**	**-**	**914,573**	**713,058**	**1,627,631**

Determining the recoverable amount of property, plant and equipment

The majority of the Group’s property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2013 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

Each cash-generating unit (CGU) is determined by the Group based on the geographical location of the Company’s branches and subsidiaries which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets. The following key assumptions were used in determining the recoverable amounts of each of the cash-generating units:

- cash flows were projected based on actual operation results and forecast for 2014;
- forecast cash flows were prepared for the period 2014-2021 (2022) and were based on extrapolation of 2014 data and represent the best estimate of the Group’s Management in respect of the transmission volumes, operating and capital expenditures and tariffs approved by regulatory bodies for 2014;
- distribution tariffs for forecasted period were estimated using a limitation of tariffs growth rate of 4.5% for the period from 31 December 2013 to 31 December 2014, 2.5% for the period from 31 December 2014 to 31 December 2015, 4.8% for the period from 31 December 2015 to 31 December 2016 in accordance with the Russian Government forecast (increase in regulated tariffs for network organisations). Tariffs growth rates in 2017-2022 are restricted by inflation rates according to Ministry of Economic Development of the Russian Federation (till 2030);
- for the following CGUs (Belgorodenergo, Kurskenergo, Lipetskenergo, Tambovenergo) where since 1 July 2017 termination of “last mile” agreements is expected transmission tariffs were calculated taken into account this fact. On average for Belgorodenergo and Kurskenergo 23% and 30% increase in tariff was estimated for 2017 and 2018, respectively. Tariff growth for Lipetskenergo was estimated at 5% and 33% for 2017 and 2018, respectively. Tariff growth for Tambovenergo was estimated at 5% for 2017 and 2018. Starting from 2019 the limitation of tariffs growth rate of 3%-4% was used for further periods;

Thousands of Russian Roubles, unless otherwise stated

• forecasted transmission volumes for “Belgorodenergo”, “Lipetskenergo”, “Tambovenergo” were determined based on the Company’s business plan for 2014-2018. Starting from 2019 the production level was fixed at 2018 level;

• forecasted transmission volumes for “Bryanskenergo”, “Voronezhenergo”, “Kostromaenergo”, “Kurskenergo”, “Orelenergo”, “Smolenskenergo”, “Tverenergo”, “Yargorelectroset” and “Yarenergo” were determined based on the Company’s business plan for 2014-2018. Starting from 2019 the production level according to the Company's management was predicted based on the annual growth of 1.5%;

• the cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 11.32%;

• growth rate of the net cash flows amounted to 2.3-2.5% in the post-forecasted period.

As a result of testing as at 31 December 2013 no impairment loss was recognised.

An increase of one percentage point in the discount rate used would have caused the recognition of an impairment loss of RUB 642,374 thousand for one of the Company’s CGUs.

13 INTANGIBLE ASSETS

	Software	Licenses	Other intangible assets	Total
Cost				
Balance at 1 January 2012	376,316	284	1,396,028	1,772,628
Reclassification	(6,707)	(284)	6,991	-
Additions	64,964	-	47,890	112,854
Disposals	(72,100)	-	(55,697)	(127,797)
Balance at 31 December 2012	**362,473**	**-**	**1,395,212**	**1,757,685**
Balance at 1 January 2013	362,473	-	1,395,212	1,757,685
Additions	138,988	-	80,162	219,150
Disposals	(120,480)	-	(431,639)	(552,119)
Balance at 31 December 2013	**380,981**	**-**	**1,043,735**	**1,424,716**
Accumulated amortisation				
Balance at 1 January 2012	(152,483)	(41)	(674,995)	(827,519)
Reclassification	6,233	41	(6,274)	-
Amortisation for the period	(112,692)	-	(241,345)	(354,037)
Disposals	72,100	-	48,613	120,713
Balance at 31 December 2012	**(186,842)**	**-**	**(874,001)**	**(1,060,843)**
Balance at 1 January 2013	(186,842)	-	(874,001)	(1,060,843)
Amortisation for the period	(98,392)	-	(197,898)	(296,290)
Disposals	120,480	-	427,858	548,338
Balance at 31 December 2013	**(164,754)**	**-**	**(644,041)**	**(808,795)**
Net book value				
At 1 January 2012	**223,833**	**243**	**721,033**	**945,109**
At 31 December 2012	**175,631**	**-**	**521,211**	**696,842**
At 31 December 2013	**216,227**	**-**	**399,694**	**615,921**

Thousands of Russian Roubles, unless otherwise stated

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Property, plant and equipment	11,288	12,032	(6,594,834)	(4,966,787)	(6,583,546)	(4,954,755)
Other non-current assets	503	223	-	-	503	223
Inventories	978	15,147	-	-	978	15,147
Trade and other receivables	864,367	11,024	-	-	864,367	11,024
Finance lease liabilities	115,471	105,974	-	-	115,471	105,974
Post employment benefit liability	248,057	196,284	-	-	248,057	196,284
Employee payables	151,970	138,137	-	-	151,970	138,137
Other	240,455	213,392	(71,001)	(68,247)	169,454	145,145
Deferred tax assets/(liabilities)	**1,633,089**	**692,213**	**(6,665,835)**	**(5,035,034)**	**(5,032,746)**	**(4,342,821)**

(b) Movements in temporary differences during the period

	1 January 2013	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2013**
Property, plant and equipment	(4,954,755)	(1,628,791)	-	(6,583,546)
Other non-current assets	223	(4,251)	4,531	503
Inventories	15,147	(14,169)	-	978
Trade and other receivables	11,024	853,343	-	864,367
Finance lease liabilities	105,974	9,497	-	115,471
Post employment benefit liability	196,284	895	50,878	248,057
Employee payables	138,137	13,833	-	151,970
Other	145,145	24,309	-	169,454
	(4,342,821)	**(745,334)**	**55,409**	**(5,032,746)**

Thousands of Russian Roubles, unless otherwise stated

	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Property, plant and equipment	(4,382,528)	(572,227)	-	(4,954,755)
Other non-current assets	424	6,593	(6,794)	223
Inventories	33,512	(18,365)	-	15,147
Trade and other receivables	(92 342)	103,366	-	11,024
Finance lease liabilities	172,730	(66,756)	-	105,974
Post employment benefit liability	175,994	(5,190)	25,480	196,284
Employee payables	122,598	15,539	-	138,137
Other	(71,945)	217,090	-	145,145
	(4,041,557)	**(319,950)**	**18,686**	**(4,342,821)**

15 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2013	31 December 2012
Financial assets related to the employee benefit fund	355,003	343 349
Available-for-sale financial assets	175,885	199,666
	530,888	**543,015**

Available-for-sale financial assets represent investments in shares of JSC E.ON Russia and other securities, which are listed on MICEX RTS, recorded at fair market value (belong to Level 1 in the fair value hierarchy).

Financial assets related to employee benefit fund

Financial assets related to the employee benefit fund relate to the Group's contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

The Group's exposure related to credit risks and impairment losses related to other investments and financial assets is disclosed in Note 28.

16 OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012
Trade accounts receivable	64,557	90,538
Non-current prepayments	5,303	5,656
Other accounts receivable	11,981	30,184
Other accounts receivable impairment allowance	(502)	(1,114)
Other assets	36,684	36,690
	118,023	**161,954**

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in bank accounts and bank deposits with maturities at initial recognition of less than three months from the acquisition date amounted to RUB 1,114,942 thousand denominated in roubles (31 December 2012: RUB 971,592 thousand).

Thousands of Russian Roubles, unless otherwise stated

18 TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade receivables	21,719,150	13,959,355
Trade receivables impairment allowance	(10,558,784)	(2,108,327)
Other receivables	818,275	617,015
Other receivables impairment allowance	(198,834)	(196,748)
Total financial assets	**11,779,807**	**12,271,295**
Prepayments	240,255	528,193
Prepayments impairment allowance	(35,764)	(1,601)
VAT recoverable	410,785	652,311
Prepaid taxes other than income tax	235,269	22,159
	12,630,352	**13,472,357**

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

19 INVENTORIES

	31 December 2013	31 December 2012
Materials and supplies	2,051,203	1,471,625
Other inventories	4,325	19,560
Total inventories	**2,055,528**	**1,491,185**
Less: provision for inventory obsolescence	(4,891)	(75,736)
Total	**2,050,637**	**1,415,449**

20 EQUITY

(a) Share capital

	Ordinary shares	
	31 December 2013	31 December 2012
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

At the annual shareholders meeting held on 15 June 2012 the decision was made to distribute the Company's profit for the year 2011 to dividends in the amount of RUB 422,179 thousand and to pay dividends for the year 2011 in the amount of RUB 0.01 per ordinary share of the Company in cash.

Thousands of Russian Roubles, unless otherwise stated

At the annual shareholders meeting held on 14 June 2013 the decision was made to distribute the Company's profit for the year 2012 to dividends in the amount of RUB 862,935 thousand and to pay dividends for the year 2012 in the amount of RUB 0.02044 per ordinary share of the Company in cash.

21 EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	**Ordinary shares 31 December 2013**	**Ordinary shares 31 December 2012**
Authorised shares	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
Profit for the year attributable to shareholders	**233,680**	**4,561,765**
Earning per share (in RUB): basic and diluted	**0.006**	**0.108**

22 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk, refer to Note 28.

Thousands of Russian Roubles, unless otherwise stated

Long-term loans and borrowings

					Par value		Carrying value	
Name of lender		**Effective interest rate 31 December 2013**	**Effective interest rate 31 December 2012**	**Maturity**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
OJSC "Alfa-Bank"	Unsecured	8.25%	7.8-9.5%	2017	2,002,712	2,003,115	2,002,712	2,003,115
OJSC "Bank VTB"	Unsecured	8.1175-8.75%	10.17%	2017-2019	8,320,000	3,922,179	8,320,000	3,922,179
OJSC "Rosbank"	Unsecured	8.00%	8.00%	2015	3,800,000	3,801,661	3,800,000	3,801,661
OJSC "Sberbank"	Unsecured	7.524-10.44%	7.524-10.44%	2014-2025	14,853,827	12,601,526	14,853,827	12,601,526
CJSC "Transcapitalbank"	Unsecured	13.50%	13.50%	2015	76,447	111,978	76,447	111,978
Unsecured bond issues	Unsecured	9.044%	9.044%	2015	4,074,560	4,073,560	4,066,338	4,061,797
					33,127,546	**26,514,019**	**33,119,324**	**26,502,256**
Less: current portion								
OJSC "Alfa-Bank"	Unsecured	8.25%	7.8-9.5%		2,712	3,115	2,712	3,115
OJSC "Bank VTB"	Unsecured	8.1175-8.75%	10.17%		-	2,179	-	2,179
OJSC "Rosbank"	Unsecured	8.00%	8.00%		-	1,661	-	1,661
OJSC "Sberbank"	Unsecured	7.524-10.44%	7.524-10.44%		1,753,827	85,426	1,753,827	85,426
CJSC "Transcapitalbank"	Unsecured	13.50%	13.50%		76,447	40,022	76,447	40,022
Unsecured bond issues	Unsecured	9.044%	9.044%		74,560	73,560	78,650	74,109
					1,907,546	**205,963**	**1,911,636**	**206,512**
Total long-term borrowings					**31,220,000**	**26,308,056**	**31,207,688**	**26,295,744**

Thousands of Russian Roubles, unless otherwise stated

Current borrowings and current portion of long-term borrowings

				Par value		Carrying value	
Name of lender		**Effective interest rate**	**Effective interest rate**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
OJSC “Alfa-Bank”	Unsecured	8.25%	7.8-9.5%	2,712	3,115	2,712	3,115
OJSC “Bank VTB”	Unsecured	8.1175-8.75%	10.17%	-	2,179	-	2,179
OJSC “Rosbank”	Unsecured	8.00%	8.00%	-	1,661	-	1,661
OJSC “Sberbank”	Unsecured	7.524-10.44%	7.524-10.44%	1,753,827	85,426	1,753,827	85,426
OJSC “SGB”	Unsecured	10.00%	10.00%	283	490	283	490
CJSC “Transcapitalbank”	Unsecured	13.50%	13.50%	76,447	40,022	76,447	40,022
Unsecured bond issues	Unsecured	9.044%	9.044%	74,560	73,560	78,650	74,109
				1,907,829	**206,453**	**1,911,919**	**207,002**

All the Group’s borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of borrowings approximates their fair value.

As at 31 December 2013 and 31 December 2012 no bank loans are secured over bank guarantees received.

Thousands of Russian Roubles, unless otherwise stated

23 FINANCE LEASE

The finance lease liabilities are secured by the leased assets.

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	At 31 December 2013		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	549,091	493,368	55,723
Between one and five years	90,850	83,989	6,861
	639,941	**577,357**	**62,584**

	At 31 December 2012		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	513,498	400,243	113,255
Between one and five years	157,361	141,392	15,969
	670,859	**541,635**	**129,224**

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the year ended 31 December 2013 and 2012.

(a) Net liability in Consolidated Statement of Financial Position

	31 December 2013	**31 December 2012**
Recognised post-employment benefit	2,524,679	2,146,316
Recognised other long term liability	2,672	2,506
Total recognised liability	**2,527,351**	**2,148,822**

(b) Movements in the defined benefit liability

	Post employment benefit		**Other long-term liability**		**Total liability**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Balance at 1 January	2,146,316	1,967,976	2,506	44,659	2,148,822	2,012,635
Included in profit or loss						
Current service cost	88,601	79,448	115	157	88,716	79,605
Past service credit	(19)	(23,417)	(40)	(42,467)	(59)	(65,884)
Interest cost	158,678	153,449	183	164	158,861	153,613
Remeasurements of other long term benefits	-	-	237	372	237	372
	247,260	**209,480**	**495**	**(41,774)**	**247,755**	**167,706**

Thousands of Russian Roubles, unless otherwise stated

	Post employment benefit		Other long-term liability		Total liability	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Included in OCI						
Remeasurements loss (gain):						
- Actuarial loss (gain) arising from:						
- demographic assumptions	229,662	-	-	-	229,662	-
- financial assumptions	(132,896)	102,881	-	-	(132,896)	102,881
- experience adjustment	226,857	84,686	-	-	226,857	84,686
	323,623	**187,567**	**-**	**-**	**323,623**	**187,567**
Other						
Benefits paid	(192,520)	(218,707)	(329)	(379)	(192,849)	(219,086)
Balance at 31 December	**2,524,679**	**2,146,316**	**2,672**	**2,506**	**2,527,351**	**2,148,822**

(c) Actuarial assumptions

Principal actuarial assumptions are as follows:

	31 December 2013	31 December 2012
Discount rate, annual	8.00%	7.10%
Future salary increase, per year	5.00%	5.00%
Inflation rate, per year	5.00%	5.00%
Average staff turnover	7.00%	7.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows.

	2013	2012
Longevity at age 60 for current pensioners		
Males	19	13
Females	23	18
Longevity at age 60 for current members aged 45		
Males	14	13
Females	20	18

At 31 December 2013, the weighted-average duration of the defined benefit obligation was 7.4 years (2012: 7.9 years).

Thousands of Russian Roubles, unless otherwise stated

(d) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

31 December 2013	**Impact of movement in actuarial assumptions on Defined benefit obligation**	
Actuarial assumptions	Increase	Decrease
Discount rate (0.5% movement)	-3.30%	3.30%
Future salary growth (0.5% movement)	2.12%	-2.12%
Future pension growth (0.5% movement)	1.27%	-1.27%
Staff turnover (10% movement)	-1.10%	1.10%
Future mortality (10% movement)	-1.30%	1.30%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

25 EMPLOYEE PAYABLES

	31 December 2013	**31 December 2012**
Salaries and wages payable	19,268	364,313
Unused vacation provision	397,007	357,847
Annual bonus provision	296,300	332,837
Provision for termination benefits	66,543	-
	779,118	**1,054,997**

Provision for annual bonuses includes bonuses and other similar payments accrued (including compulsory social security contributions) based on employees’ performance.

26 TRADE AND OTHER PAYABLES

	31 December 2013	**31 December 2012**
Trade accounts payable	6,309,673	5,637,331
Other payables and accrued expenses	1,960,827	1,716,387
Advances from customers	2,268,022	3,791,171
	10,538,522	**11,144,889**

Litigation provision:

	31 December 2013	**31 December 2012**
Balance at 1 January	**1,363,996**	**1,179,776**
Increase during the year	430,870	1,248,857
Decrease due to the use of provision	(203,565)	(283,569)
Decrease due to reversal	(404,177)	(781,068)
Balance at 31 December	**1,187,124**	**1,363,996**

Thousands of Russian Roubles, unless otherwise stated

27 OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2013	31 December 2012
Value added tax	775,236	325,675
Compulsory social security contributions	325,829	245,014
Property tax	12,452	63,666
Other taxes	17,504	117,978
	1,131,021	**752,333**

28 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

The Group does not have any significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Company, which is the Russian Rouble.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

To manage credit risk the Group attempts, to the fullest extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in a contract and depends on the amount of capacity to be connected.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked weekly and electricity transmission customers are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection a working team was formed to reduce the Company's finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables that relate to individually significant exposures.

Thousands of Russian Roubles, unless otherwise stated

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2013	**31 December 2012**
Trade and other receivables	11,855,843	12,390,903
Investments and financial assets	530,888	543,015
Cash and cash equivalents	1,114,942	971,592
	13,501,673	**13,905,510**

The Group's two most significant customers, regional distribution entities, account for RUB 2,007,145 thousand of the trade receivables carrying amount at 31 December 2013 (31 December 2012: RUB 4,520,030 thousand).

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	Carrying amount at 31 December 2013	**Carrying amount at 31 December 2012**
Electricity transmission customers	5,499,763	11,591,240
Consumers of electricity and capacity	5,382,222	-
Connection services customers	101,183	107,640
Other customers	241,755	242,686
	11,224,923	**11,941,566**

Impairment losses

The tables below analyse the Group's trade and other receivables into relevant groups based on the past due periods:

	At 31 December 2013		**At 31 December 2012**	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	5,133,616	(59,643)	6,594,313	(119,680)
Past due 0-3 months	3,885,073	(212,519)	3,603,571	(329,873)
Past due 3-6 months	1,311,860	(662,591)	1,966,473	(415,478)
Past due 6-12 months	7,455,810	(5,415,359)	1,388,214	(573,198)
Past due more than 12 months	4,827,604	(4,408,008)	1,144,521	(867,960)
	22,613,963	**(10,758,120)**	**14,697,092**	**(2,306,189)**

The movements in the allowance for impairment in respect of trade and other receivables during the period were as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Balance at 1 January	**2,306,189**	**1,784,891**
Increase during the period	9,025,000	1,734,317
Amounts written-off against receivables	(94,383)	(39,469)
Decrease due to reversal	(478,686)	(1,173,550)
Balance at 31 December	**10,758,120**	**2,306,189**

(iii) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the consolidated statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

Thousands of Russian Roubles, unless otherwise stated

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Trade and other receivables 31 December 2013	Trade and other payables 31 December 2013
Net amounts presented in the consolidated statement of financial position	5,429,718	3,891,244
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(117,011)	(117,011)
Net amount	**5,312,707**	**3,774,233**

	Trade and other receivables 31 December 2012	Trade and other payables 31 December 2012
Net amounts presented in the consolidated statement of financial position	10,435,170	2,312,653
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(61,619)	(61,619)
Net amount	**10,373,551**	**2,251,034**

The net amounts presented in the consolidated statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of commercial banks, designated as highly rated banks.

As at 31 December 2013 the Group’s unused portion of long-term and short-term credit line facilities amounted to RUB 8,800,000 thousand (31 December 2012: RUB 8,033,900 thousand).

Thousands of Russian Roubles, unless otherwise stated

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Liabilities as at 31 December 2013								
Short-term and long-term bank loans including current portion	29,053,269	39,531,025	4,102,781	7,551,809	3,213,285	7,687,084	12,217,589	4,758,477
Unsecured bond issues	4,066,338	4,714,056	358,000	4,356,056	-	-	-	-
Finance lease liabilities	577,357	639,941	549,091	89,221	1,629	-	-	-
Trade and other payables	7,073,709	7,073,709	7,041,289	23,463	131	131	131	8,564
	40,770,673	**51,958,731**	**12,051,161**	**12,020,549**	**3,215,045**	**7,687,215**	**12,217,720**	**4,767,041**
Financial guarantees	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Liabilities as at 31 December 2012								
Short-term and long-term bank loans including current portion	22,440,949	31,935,267	2,046,825	6,090,726	6,897,112	2,573,509	5,062,396	9,264,699
Unsecured bond issues	4,061,797	5,071,120	357,040	357,040	4,357,040	-	-	-
Finance lease liabilities	541,635	670,859	513,498	146,572	10,789	-	-	-
Trade and other payables	5,985,685	5,985,685	5,972,692	-	6,173	-	-	6,820
	33,030,066	**43,662,931**	**8,890,055**	**6,594,338**	**11,271,114**	**2,573,509**	**5,062,396**	**9,271,519**
Financial guarantees	**-**	**8,234**	**8,234**	**-**	**-**	**-**	**-**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Interest rate risk

Substantially all the operations of the Group are denominated in Russian Roubles, hence the Group is not exposed to significant currency risk.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	**Carrying amount**
Fixed rate instruments	**31 December 2013**	**31 December 2012**
Financial liabilities	33,696,964	27,044,381

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Accounting classifications and fair values

The fair values of the Group's financial assets and liabilities approximate their carrying amounts as at 31 December 2013.

The Group measures at fair value available-for-sale financial assets represented by equity securities (see Note 15).

(f) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the period.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

Thousands of Russian Roubles, unless otherwise stated

As at the end of the reporting year the debt-to-equity ratio for the Group was as follows:

	Carrying value	
	31 December 2013	**31 December 2012**
Aggregate liabilities	54,292,645	46,929,520
Less: cash and cash equivalents	(1,114,942)	(971,592)
Net debt	**53,177,703**	**45,957,928**
Shareholders' equity	41,753,979	42,641,538
Gearing ratio	127%	108%

29 OPERATING LEASES

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Operating lease rentals under non-cancellable leases are payable as follows:

	31 December 2013	**31 December 2012**
Less than one year	512,385	477,190
Between one year and five years	865,855	863,099
More than five years	3,787,723	3,538,313
	5,165,963	**4,878,602**

The amount of lease expense under operating leases recognised in profit or loss for the year ended 31 December 2013 was RUB 689,775 thousand (for the year ended 31 December 2012: RUB 582,143 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 4,426,215 thousand as at 31 December 2013 (as at 31 December 2012: RUB 5,452,842 thousand).

31 CONTINGENCIES

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full insurance coverage for its production facilities and third party liability in respect of property, health and environmental damage arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

Thousands of Russian Roubles, unless otherwise stated

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these Financial Statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(e) Other contingencies

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. However, based on the lack of elaboration of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property ("last-mile"), as at 31 December 2012 the Company was a party in litigation relating to a claim submitted to the court by OJSC Novolipetsk Steel complex regarding the legitimacy of the revenue recognition from the transmission of electricity via "last-mile" grids in the period from July 2008 to September 2011 in the amount of RUB 5,122,123 thousand.

On 04 July 2013 the Federal Arbitration Court of Moscow District issued the final resolution in favour of the Company.

(f) Guarantees

As at 31 December 2013 the Group has no issued financial guarantees for loans.

	Amount on contract 31 December 2013	**Amount on contract 31 December 2012**
Belgorodskoe OSB №8582	-	8,234
	-	**8,234**

Thousands of Russian Roubles, unless otherwise stated

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 31 December 2013 and 31 December 2012 was JSC Russian Grids. The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of JSC Russian Grids.

(b) Transactions with parent company and other related parties

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2013	**2012**	**2013**	**2012**
Sale of goods and services:	**132,938**	**145**	**25,255**	**-**
Fellow subsidiaries	132,938	145	25,255	-
Purchase of goods and services:	**8,064,903**	**439,541**	**1,198,280**	**33,638**
Parent company	342,398	374,774	20,201	22,112
Fellow subsidiaries	7,722,505	64,767	1,178,079	11,526
Advances given:	**-**	**-**	**114,810**	**4,787**
Fellow subsidiaries	-	-	114,810	4,787
Advances received:	**-**	**-**	**167,015**	**-**
Fellow subsidiaries	-	-	167,015	-

(c) Management compensation

There are no transactions or balances with key management and their close family members except for remuneration in the form of salary and bonuses.

Total remuneration paid to key management, Board of Directors and Management Board members for the year ended 31 December 2013 and included into personnel costs was:

	Year ended 31 December 2013	Year ended 31 December 2012
Salary and bonuses	**214,141**	**297,984**

(d) Transactions with government-related entities

The Group applies the exemption in IAS 24 Related party disclosures that allows to present reduced related party disclosures regarding transactions with government-related entities.

In the course of business, the Group makes a significant number of transactions with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Revenues from government-related entities accounts for 4% of total revenue for the year ended 31 December 2013, (for the year ended 31 December 2012: 3%) including 4% of the proceeds from the transfer of electricity (for the year ended 31 December 2012: 3%).

Thousands of Russian Roubles, unless otherwise stated

Costs of electricity transmission for government-related entities account for 30% of the total cost of the electricity transmission for the year ended 31 December 2013 (for the year ended 31 December 2012: 58%).

Since 14 June 2013 operations with JSC “FGC UES” were disclosed as operations with fellow subsidiaries due to the fact that on that date the state-owned shares (79.64%) of this entity were handed over from the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) to JSC “Russian Grids”. The share of the cost of electricity transmission to government-related entities decreased.

(e) Loans and borrowings received from government-related entities

	Addition of loans and borrowings	The balance of transactions	Addition of loans and borrowings	The balance of transactions
	2013	**31 December 2013**	**2012**	**31 December 2012**
Loans and borrowings received from:				
Government-related entities	21,933,900	23,173,827	2,166,100	16,523,705
	21,933,900	**23,173,827**	**2,166,100**	**16,523,705**

Loans and borrowings are drawn at the market interest rate (Note 28).

(f) Pricing policy

Transactions with related parties for the transmission of electricity are carried out at the tariffs set by the state.